

Australian Energy Markets Commission
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RE: Optional Firm Access, Design and Testing First Interim Report

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Dear Commissioners,

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities like electricity impacts greatly and disproportionately on vulnerable and disadvantaged people. Our advocacy is informed by our members; organisations and individuals who witness these impacts in our community.

Thank you for the opportunity to comment on the first interim report from the AEMC's Optional Firm Access (OFA), Design and Testing project.

SACOSS is supportive of the goal of this project, to create a model that guides more efficient investment in transmission infrastructure. The first interim report highlights a number of ways that optional firm access could lead to price benefits for consumers.

The SA region of the NEM has had fewer issues with intra-regional constraints than other regions but is quite reliant on interconnection to the VIC region (12% in 2013-14 up from 10% in 12-13). SACOSS has recent experience in the application of the Regulatory Investment Test (RIT-T) to an increase in capacity of the Heywood Interconnector – SA's main connection to the NEM. The SACOSS experience highlighted the potential of the OFA model to overcome many of the risks of inefficient investments in very expensive infrastructure.

This submission looks at the Heywood upgrade as a case study of our experience as consumer advocates in trying to secure a cost effective outcome for consumers. The end result has been approval for the expenditure of over \$100m – much more than SACOSS believes is necessary - that will be recovered from consumers whether the project delivers its modelled benefits or not. In our mind such outcomes are a failure to satisfy the National Electricity Objective of pursuing economic efficiencies in the interest of consumers.

In the current system, the risk that an optimal decision has not been made or that an investment fails to deliver its modelled benefits are disproportionately carried by electricity consumers. At least in principle, the OFA project will find ways to ensure that risks are more fairly shared across all beneficiaries of transmission investments that reduce congestion in the electricity market.

Heywood Interconnector 2010 to 2014 - case study

SACOSS provided a number of submissions during the process where Electranet applied for a RIT-T determination from the Australian Energy Regulator (AER) and was ultimately granted approval to proceed with an investment of \$108m. Electranet are now able to recover the costs of this investment regardless of the extent to which the upgrade delivers the \$190m of long term benefits projected by the modelling.

SACOSS argued from the outset that more cost effective, lower risk and more timely investment could be made. SACOSS submissions highlighted that a number of changes in both the regulatory context and in demand for network infrastructure were underway and were not being taken into account in the assessment of the Heywood investment.

In August 2012, SACOSS highlighted that South Australian consumers are being expected to pay an increasing amount toward transmission investments with an increase of 60% in transmission costs over a five year period mirroring a 60% increase in the regulated asset base of Electranet.

In October 2012, SACOSS argued for a more modest investment option than alternative preferred by Electranet. In its analysis, Electranet had considered an upgrade option with approximately half the capital cost because it could proceed without an additional transformer and Electranet had also received a significant demand management proposal. These lower cost options were not preferred by Electranet.

SACOSS argued that a staged approach to investment potentially provided a better cost benefit ratio. A smaller investment would also allow for changes to take effect which might impact on the modelled benefits. For example regulatory changes could alter cost recovery arrangements, policy changes could alter generation investments and a softening of demand was not being taken into account. As it stood the consumer was being asked to bear the risk of all these potential changes.

In its final submission regarding the timing and cost of the project, SACOSS urged the AER to review the assumptions underpinning the project. A South Australian investment cost of \$66m could be worth \$5m in savings for consumers for each year that the investment can be deferred. The submission highlighted the changes in federal policy for carbon pricing and the RET and the changes in forecasts from AEMO in the 2013 National Transmission Network Development Plan (NTNDP). It is worth noting that the Heywood Interconnector feasibility study was based on the 2010 NTNDP and demand forecasts had been significantly updated in the intervening years.

The \$108m investment was approved and met the rules for the regulatory investment test.

The SACOSS submissions highlight investment incentives and changes such as declining demand, regulatory and policy changes that can make transmission infrastructure investments inefficient. To have such large expenditure justified on benefits that may accrue many years into the future sees almost all of the risk borne directly by consumers and none by the immediate beneficiaries of the expenditure – the generators that seek to export or the gentailers that seek to better link customers in one region with generation they own in another.

Under the existing situation, the cost of investment inefficiency is borne by consumers even though other parties are better placed to manage these risks.

In summary:

The Heywood case study suggests that the present arrangements are not delivering workable lowest cost solutions: such as staged approaches to investment, demand management options or deferred investment.

SACOSS has also shown that investments under the current regime are not responsive to changes - and there are a lot of them at the moment – and so consumers carry the risk of over investment. Regulatory, policy and demand changes have all been significant over the development of the Heywood proposal and yet decision making is tied to early conditions (e.g. 2010 demand forecasts) rather than responsive to change.

OFA is seen as having the potential for more efficient decision making, especially when the need for transmission infrastructure is driven by the investment decisions of generators rather than directly by the consumption demands of consumers (which, as is increasingly being seen, can be met from a number of generation sources embedded in the distribution network).

It is inappropriate that consumers are actively trying to reduce their energy costs but are unable to get out from under the burden of transmission investments made with inefficient decision making. If OFA does not progress then a viable alternative to the status quo must still be pursued.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', with a large, sweeping flourish at the end.

Ross Womersley
Executive Director